

# Consolidated Financial Results for the Fiscal Year Ended December 31, 2018 [Japanese GAAP]



February 14, 2019

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 Securities Code: 6789  
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 Scheduled date of Ordinary General Meeting of Shareholders: March 20, 2019  
 Scheduled date of filing annual securities report: March 20, 2019  
 Scheduled date of commencing dividend payments: March 22, 2019  
 Availability of supplementary briefing material on consolidated financial results: Available  
 Schedule of consolidated financial results briefing session: Scheduled (for institutional investors and analysts)

(Figures are rounded down to the nearest million yen)

## 1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Fiscal year ended December 31, 2018	42,774	(1.8)	4,250	10.3	3,976	4.5	2,881	50.2
Fiscal year ended December 31, 2017	43,573	(1.2)	3,853	(11.6)	3,804	(7.3)	1,918	(29.1)

(Note) Comprehensive income: Fiscal year ended December 31, 2018: 2,282 million yen [(10.7)%]  
 Fiscal year ended December 31, 2017: 2,556 million yen [32.7%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen			
Fiscal year ended December 31, 2018	229.66	—	12.3	10.9	9.9
Fiscal year ended December 31, 2017	153.19	—	8.9	10.4	8.8

(Reference) Equity in earnings (losses) of affiliated companies: Fiscal Year Ended December 31, 2018: - million yen  
 Fiscal Year Ended December 31, 2017: - million yen

## (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of December 31, 2018	36,710	24,182	65.9	1,926.09
As of December 31, 2017	36,570	22,521	61.6	1,798.32

(Reference) Equity: As of December 31, 2018: 24,182 million yen  
 As of December 31, 2017: 22,521 million yen

### (3) Consolidated Cash Flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Fiscal year ended December 31, 2018	4,347	(755)	(2,339)	11,169
Fiscal year ended December 31, 2017	2,446	(827)	(2,005)	9,748

### 2. Dividends

	Annual dividends				
	1st quarter end	2nd quarter end	3rd quarter end	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2017	–	25.00	–	35.00	60.00
Fiscal year ended December 31, 2018	–	25.00	–	45.00	70.00
Fiscal year ending December 31, 2019 (Forecast)	–	25.00	–	25.00	50.00

	Total dividends paid (annual)	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	Millions of Yen	%	%
Fiscal year ended December 31, 2017	759	39.2	3.5
Fiscal year ended December 31, 2018	885	30.5	3.8
Fiscal year ending December 31, 2019 (Forecast)		33.0	

### 3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2019 (From January 1, 2019 to December 31, 2019)

(% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
First half	20,900	(0.4)	1,100	(38.3)	1,000	(38.6)	700	(32.9)	55.75
Full year	42,000	(1.8)	3,000	(29.4)	2,800	(29.6)	1,900	(34.1)	151.33

**\* Notes**

(1) Significant changes of subsidiaries during the fiscal year ended December 31, 2018 (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly added: —  
Excluded: 1 company (InClix Corporation)

(2) Changes in accounting policies, changes in accounting estimates and corrections of errors

- 1) Changes in accounting policies due to the revision of accounting standards: No
- 2) Any changes in accounting policies other than 1) above: No
- 3) Changes in accounting estimates: No
- 4) Corrections of errors: No

(3) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

Fiscal year ended December 31, 2018	12,656,311 shares
Fiscal year ended December 31, 2017	12,656,311 shares

2) Total number of treasury shares at the end of the period:

Fiscal year ended December 31, 2018	101,195 shares
Fiscal year ended December 31, 2017	132,595 shares

3) Average number of shares during the period:

Fiscal year ended December 31, 2018	12,547,441 shares
Fiscal year ended December 31, 2017	12,520,783 shares

(Note) The total number of treasury shares at the end of the fiscal year ended December 31, 2018 and at the end of the fiscal year ended December 31, 2017 includes 101,000 shares and 132,400 shares of the Company held by the Director Stock Benefit Trust and J-ESOP Trust, respectively. The number of treasury shares excluded from calculation of the average number of shares during the period for the fiscal year ended December 31, 2018 and ended December 31, 2017 includes 108,675 shares and 135,333 shares of the Company held by the Director Stock Benefit Trust and J-ESOP Trust, respectively.

(Reference) Summary of Non-consolidated Financial Results

**1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)**

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Fiscal year ended December 31, 2018	27,713	(8.8)	2,352	(41.0)	2,424	(46.0)	1,582	(33.5)
Fiscal year ended December 31, 2017	30,402	(2.1)	3,986	29.9	4,490	33.2	2,380	(0.2)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Fiscal year ended December 31, 2018	126.09		—	
Fiscal year ended December 31, 2017	190.12		—	

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of December 31, 2018	30,268	21,310	70.4	1,697.35
As of December 31, 2017	30,723	20,359	66.3	1,625.66

(Reference) Equity: As of December 31, 2018: 21,310 million yen  
As of December 31, 2017: 20,359 million yen

\* These consolidated financial results are outside the scope of audit.

\* Explanation of the proper use of financial results forecast and other notes

1. Financial results forecast was prepared based on available information at the time of the release of this document, and the Company does not in any way guarantee the achievement of the projections. Actual results may be different from the projections due to various factors. For the notes concerning the use of financial results forecast, please refer to "Future Outlook" on page 13.
2. The Company plans to hold a briefing session for institutional investors and analysts on February 18, 2019 (Monday). Materials to be distributed at the session will be posted on the Company's website.

## Table of Contents of Appendix

1. Overview of Results of Operations, etc.	6
(1) Overview of Results of Operations	6
(2) Overview of Financial Position	12
(3) Future Outlook	13
2. Management Policy	14
(1) Basic Company Management Policy	14
(2) Target Management Benchmarks	14
(3) Medium to Long Term Business Strategy and Issues to be Addressed	14
3. Basic Policy on Selection of Accounting Standards	17
4. Consolidated Financial Statements	18
(1) Consolidated Balance Sheets	18
(2) Consolidated Statements of Operations and Comprehensive Income	20
(3) Consolidated Statements of Changes in Net Assets	23
(4) Consolidated Statements of Cash Flows	25
5. Other	27
Changes to Officers	

## 1. Overview of Results of Operations, etc.

### (1) Overview of Results of Operations

During the fiscal year ended December 31, 2018, the world economy continued to expand moderately owing to factors including continued strong growth in Europe and the United States, and an improvement in employment trends and increased capital investment in Japan due to its economic policies. However, prospects remained uncertain, influenced by trade friction due to protectionist policy trends in the United States and fluctuations in financial and capital markets.

Although the group formulated a five-year medium-term business plan beginning in FY 2016 and was working toward its achievement, as it has become apparent that business results will substantially differ from initial targets, performance goals for the final fiscal year and the initiatives to achieve them have been revised, and the “Notice of Revision of Medium-Term Business Plan” was announced on August 8, 2018. Specifically, the period until the final fiscal year has been positioned as a transitional period toward a new growth stage, and emphasis will be placed on changing the business portfolio and enhancing operational effectiveness, with “expanding growing markets,” “stopping the down trend of sales of printers in the sign market,” and “improving profitability” as key issues. Among these, in “expanding growth markets,” fields of focus has been revised and reselected to the three businesses of the “DP (Digital Printing) Business,” which focuses on the four markets of Signage (sign and display printing), Retail, Multi-Use Printing, and Textiles; the “COTO Business,” which has been developed from Retail to provide solutions to retail businesses and service businesses that capture needs for personalized goods; and the “DGSHAPE Business,” which targets the 3D digital fabrication and dental markets. Business operations under this new structure began on September 1, 2018. By further clarifying focus areas and allocation of management resources and swift business operations with speedy decision-making that accurately grasp market changes, the group will work to expand growth areas and create new markets.

During the fiscal year under review, in the growth area of the dental market, we engaged in activities toward accelerated regional expansion and share expansion, including enhancing distributors and solutions proposals in collaboration with CAD/CAM software vendors. We also worked to enhance service and support to enable customers to purchase products with peace of mind, through measures such as actively implementing repair and maintenance service training at distributors. In the retail market, we proposed UV printers for the application of in-store decorative services for smartphone cases and home appliances, etc., in addition to the application of creating novelties and original products in small-scale plants. Learning through such initiatives for development in the retail market that there are various needs for creating personalized goods in retail businesses and service businesses that provide in-store services, we launched the “COTO Business” in September 2018, and released “cotodesign” in December, software which offers total support for the business of creating original products matching customer preferences at stores by connecting with our products such as printers and 3D products. This is an in-store service to print customer designs by taking advantage of our product lineup, which are compact in size and can be installed anywhere and create various applications on demand. We will propose this new business in the retail market, providing value-added products and great buying experiences for our customers.

Meanwhile, in our conventional mainstay sign market, although the competitive environment continues to be fierce, we conducted sales promotion campaigns in various regions with the objective of maintaining our global customer base. Also, we worked toward a recovery in printer sales by adding products which meet customer needs for specific applications to our product lineup through co-creation with local partners.

As a result of these initiatives, although sales of 3D products increased owing to the expansion of the dental market, sales of printers mainly for the sign market were sluggish, and sales for the fiscal year ended December 31, 2018 were slightly below the previous term, decreasing by 1.8% to 42,774 million yen. Cost of sales improved 0.2% compared with the previous term. Selling, general and administrative expenses were lower than the previous term, mainly due to lower personnel expenses and advertising and promotion expenses. As a result, operating profit increased by 10.3% compared with the previous term to 4,250 million yen, and ordinary profit increased by 4.5% compared with the previous term to 3,976 million yen. Additionally, although extraordinary losses including the disposal of software assets and loss on sales and retirement of non-current assets were recorded during the current

term, as extraordinary losses for the settlement package of a patent infringement case in the United States were recorded during the previous term, profit attributable to owners of parent was 2,881 million yen, increasing by 50.2%.

The exchange rates for major currencies during the fiscal year ended December 31, 2018 (average rate during the period from January 2018 to December 2018) were 110.44 yen to the U.S. dollar (112.20 yen for the previous term) and 130.45 yen to the euro (126.70 yen for the previous term).

As the business of the Company and its consolidated subsidiaries is the manufacture and sale of computer peripheral devices and there are no other segments, it is represented as a single segment. Sales by product are as follows.

Net sales by product

(Millions of Yen)

Product	Fiscal year ended December 31, 2017		Fiscal year ended December 31, 2018		Changes	Changes in composition ratio (%)	Year-on year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)			
Printers	16,110	37.0	14,246	33.3	(1,864)	(3.7)	88.4
Plotters	1,491	3.4	1,336	3.1	(154)	(0.3)	89.7
3D products	5,005	11.5	5,619	13.2	614	1.7	112.3
Supplies	13,676	31.4	13,652	31.9	(24)	0.5	99.8
Others	7,288	16.7	7,919	18.5	630	1.8	108.6
Total	43,573	100.0	42,774	100.0	(798)	—	98.2

[Printers]

In the sign market, to respond to the situation in which the market has matured and competition has become fierce, we made efforts to maintain our customer base in this market through conducting promotional campaigns in each region. In Europe, we worked toward a recovery in printer sales by adding products which capture customer needs for specific applications to our product lineup through co-creation with local partners. Specifically, we introduced eco-solvent printers with wide color gamut into the sign market and printers capable of direct printing onto fabric into the textile market in the fourth quarter, whereby we focused on expanding applications. In addition, in October 2018, the TrueVIS VG series wide-format printer/cutters won prestigious awards at “Pick Awards 2019” of Keypoint Intelligence’ Buyers Lab, USA, a leading independent provider of trusted testing and analysis at many enterprises for office machinery, in two categories: Outstanding Enhanced CMYK Eco-Solvent/Latex 54"/64" Printer (7-Color) and Outstanding High Production CMYK Eco-Solvent/Latex 54"/64" Printer (Dual CMYK). We will continue to make efforts in development of products that fulfill the expectations of customers involved in digital printing.

In retail markets, we proposed decoration services using small UV printers which provide higher value-added services to small retailers engaging in sales of products such as smartphone cases and home appliances, in addition to small-scale plants engaging in creating original products such as novelties.

In the sign market, sales of UV printers suitable for print on large boards such as acrylic and foam board signs, and cardboard display fixtures increased mainly in Europe and the United States while sales of the TrueVIS VG-640/540 and SG-540/300 mainstay models decreased. In the retail market, despite sales of the LEF-12i small UV printer and LEF-300, notable for its high productivity, exceeding sales of the previous term, sales of the LEF-200 declined, and small UV printers for retail were lower than the previous term.

As a result of these factors, despite increased sales of large UV printers, printer sales were 14,246 million yen, or 88.4% of the previous fiscal year mainly due to a decrease of printers in the sign market.

[Plotters]

Sales of large format cutters for the sign market decreased. Consequently, plotter sales were 1,336 million yen, or 89.7% of the previous fiscal year.



[3D products]

While securing a solid footing in the 3D digital fabrication market such as the manufacturing and engraving industries as well as educational institutions, DGSHAPE Corporation, which engages in the 3D business, is expanding our business by creating new value propositions in a wider range of fields, in addition to accelerating expansion in the growing dental market. In the dental market, we introduced three new dental milling machine models, the DWX-52DCi and the DWX-52D in February 2018, and the DWX-42W, a wet milling machine, in October 2018. We conducted sales promotion activities, including attending dental industry exhibitions at various locations. Additionally, we worked to enhance service and support to enable customers to purchase products with peace of mind, through measures such as study sessions and actively implementing repair and maintenance service training at distributors.

In the 3D digital fabrication market, sales of 3D milling machines and engravers were sluggish. In addition, the LD-80 that we released in March 2018, the world's first laser foil decorator, makes it possible to transfer foil to cosmetics and stationery to create gifts and novelty items with a premium look. It is compact in size, perfect for use in stores, and is both safe and easy to use. We will actively present it as a solution to provide higher value-added in-store services in combination with "cotodesign," software to support original product creation.

In November 2018, we released "Eirthemis," a surgical instruments management solution. It enables an immediate grasp of work details through digitization of work instruction documents on surgical instrument management such as scalpels and forceps, as well as individual identification of instruments by marking two-dimensional bar codes using our marking device, the MPX-95, to comply with global Unique Device Identification (UDI) regulations, realizing a work environment independent of skill levels in areas such as preparing surgical instrument sets. We will present it to hospitals in Japan as a comprehensive solution to support the management and maintenance of surgical instruments, solving issues that hospitals are facing regarding improvement of quality and efficiency of use history management and maintenance of instruments.

As a result of these factors, sales of 3D products reached 5,619 million yen, or 112.3% of the previous fiscal year as sales of dental milling machines turned to a favorable trend.

[Supplies]

Although sales of ink for UV printers and textile printers increased, sales of ink for the sign market were lower than the previous fiscal year, and as a result, sales of supplies were on par with the previous fiscal year at 13,652 million yen, or 99.8% of the previous fiscal year.

[Others]

Sales of maintenance services and service parts, etc. were strong, and other sales were 7,919 million yen, or 108.6% of the previous fiscal year.

Sales by region are as follows.

Net sales by region

(Millions of Yen)

Region	Fiscal year ended December 31, 2017		Fiscal year ended December 31, 2018		Changes	Changes in composition ratio (%)	Year-on year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)			
Japan	5,043	11.6	4,633	10.8	(410)	(0.7)	91.9
North America	11,930	27.4	12,267	28.7	336	1.3	102.8
Europe	15,878	36.4	16,203	37.9	324	1.4	102.0
Asia	3,681	8.4	3,517	8.2	(163)	(0.2)	95.6
Others	7,039	16.2	6,153	14.4	(885)	(1.8)	87.4
Total	43,573	100.0	42,774	100.0	(798)	—	98.2

[Japan]

In 3D products, sales of the new dental milling machine DWX-52D were strong. In printers, sales of the small UV printer LEF-12i suitable for being installed in stores increased significantly, as we proposed services to small retailers and event sponsors for creating original products at stores or event venues. On the other hand, in the sign market, sales of printers and ink decreased, as competition with competitors became fiercer.

As a result, net sales in Japan were 4,633 million yen, or 91.9% of the previous fiscal year.

[North America]

In 3D products, sales of the DWX-52DCi, a dental milling machine which incorporates an automatic disc changer function that was introduced in February 2018, were strong in the dental market as it was well received by medium-scale dental technician offices primarily focused on productivity. In printers, to strengthen sales abilities in the retail market, we focused on enhancing distributors by establishing a dedicated team. As we actively presented the LEF-12i, the most compact UV printer in our series, to customers with restrictions on installation space, and the LEF-300, notable for its high productivity, to customers with large printing volume, such proposal activities to meet customers' needs are producing results.

As a result, net sales in North America were 12,267 million yen, or 102.8% of the previous fiscal year.

[Europe]

In printers, although sales increased for UV printers for the sign market suitable for print on large boards such as acrylic and foam board signs and cardboard display fixtures, sales were sluggish for printers for the sign market and small UV printers. In 3D products, despite sluggish sales in the 3D digital fabrication market, performance was strong for the DWX series in the dental market, primarily for dental milling machines which incorporate an automatic disc changer function, and sales in Eastern Europe were strong owing to successful development of a new sales network. Consequently, sales of 3D products were higher than the previous year.

As a result, and also due to benefits from the weaker yen, net sales in Europe were 16,203 million yen, or 102.0% of the previous fiscal year.

[Asia]

In the ASEAN region, sales of low-price print-only models and service parts increased. In China, although sales of dental milling machines and service parts increased, sales of printers, particularly printers for the sign market, decreased significantly.

As a result, net sales in Asia were 3,517 million yen, or 95.6% of the previous fiscal year.

[Other Regions]

In Australia, sales of UV printers for the retail market and dental milling machines increased, but sales of printers for the sign market were slow. In South America and the Middle East, sales of printers for the sign market decreased.

As a result, net sales in these regions were 6,153 million yen, or 87.4% of the previous fiscal year.

#### Basic Policy on Earnings Distributions and Dividend for Current and Next Fiscal Years

We believe in prioritizing profit returns for shareholders, and therefore we will work to maintain the stability of those returns in light of our performance. At the same time, from a mid-to-long term standpoint, since we must allocate funds for future investments in equipment, R&D and sales, we are working to bolster our internal reserves, prepare the required capital, and strengthen the constitution of our business.

In terms of actual policy, based on the profit returns in accordance with our performance, we keep our goal of maintaining dividends at 30% of consolidated profits, and incorporating that into the future of our business development.

As for dividends in the current term, term end dividends will be 45 yen, which makes the annual payout 70 yen, 10 yen higher than the previous term, resulting in the annual payout ratio of 30.5% of consolidated profit.

In terms of dividends in the following term, interim and year-end payouts are set to be 25 yen and 25 yen per share, respectively, based on the above basic policy, resulting in the annual payout of 50 yen.

(2) Overview of Financial Position

Summary of Consolidated Statements of Cash Flows

(Millions of Yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018	Changes
Net cash provided by (used in) operating activities	2,446	4,347	1,900
Net cash provided by (used in) investing activities	(827)	(763)	64
Net cash provided by (used in) financing activities	(2,005)	(2,331)	(325)
Effect of exchange rate change on cash and cash equivalents	189	127	(61)
Net increase (decrease) in cash and cash equivalents	(197)	1,380	1,577
Increase in cash and cash equivalents from newly consolidated subsidiary	10	40	30
Cash and cash equivalents at end of period	9,748	11,169	1,420

[Net cash provided by (used in) operating activities]

Net cash provided by operating activities for the fiscal year under review was 4,347 million yen, an increase of 1,900 million yen from the previous fiscal year. Main positive factors for the cash flows include an increase in profit before income taxes and a decrease in other current assets including accounts receivable – other. Main negative factors include an increase in notes and accounts receivable – trade and a decrease in other current liabilities including accounts payable – other.

[Net cash provided by (used in) investing activities]

Net cash used in investing activities for the fiscal year under review was 763 million yen, a decrease in outflow of 64 million yen from the previous fiscal year's outflow of 827 million yen. The purchase of property, plant and equipment as well as intangible assets decreased, resulting in lower outflow.

[Net cash provided by (used in) financing activities]

Net cash used in financing activities for the fiscal year under review was 2,331 million yen, an increase of 325 million yen from an outflow of 2,005 million yen in the previous fiscal year. Repayments of short-term loans payable as well as cash dividends paid increased, resulting in higher outflow.

### (3) Future Outlook

As for the future economic outlook, the Japanese economy is expected to continue to recover moderately, against the backdrop of improvements in employment and income conditions. Overseas, the outlook is expected to remain unclear owing to factors including the impact of trade issue trends on the world economy, the uncertainty of overseas economies, and the effects of fluctuations in financial and capital markets.

Regarding the outlook for the next fiscal year, sales are expected to decline slightly from the previous fiscal year owing to the expected decrease in sales of supplies and service parts, despite the expected increase in sales of printers and 3D products from the previous fiscal year. Profits are expected to decrease owing to increases in R&D expenses for strengthening technical capabilities and expenses for proactive promotion activities aimed at expanding businesses in growing markets, as well as the assumption of a stronger yen compared to the previous fiscal year.

(Millions of Yen)

	Fiscal year ended December 31, 2018	Fiscal year ending December 31, 2019	Change (%)
Net sales	42,774	42,000	98.2
Operating profit	4,250	3,000	70.6
Ordinary profit	3,976	2,800	70.4
Profit attributable to owners of parent	2,881	1,900	65.9
ROE (%)	12.3	8.1	-

Estimated exchange rates of major currencies for the fiscal year ending December 31, 2019

1USD = 105 yen, 1EUR = 125 yen

## 2. Management Policy

### (1) Basic Company Management Policy

We have focused our efforts on developing digital technologies and providing creative devices that make it possible for our customers around the world to “Transform Imagination into Reality,” based on our vision. With the rapid advances of digitalization, our customers’ needs are growing more advanced and diverse, and it is critical to proactively and rapidly develop new technologies to support these needs. We believe that we can gain the trust of our customers, developing together, not by simply aiming to achieve greater sales volume, but by supplying high quality products and services.

Led by this philosophy, we are working to create a unified operation system, consisting of our sales and development functions and affiliated companies, with the common mission of collecting customer information and developing new products. We are constantly launching development projects, which continually share information and generate awareness as they strive to develop products based on new research themes.

At the same time, the results of this high value development work must be commercialized using optimal production systems. We consider improving quality and production efficiency our greatest missions as a manufacturer, and are dedicated to developing our structures and systems. Our “Digital Yatai (digitally-controlled cell production system),” which fully leverages IT equipment, has reduced lead time and ensured reliability in quality.

We consider the effort we put into this manufacturing to be one of the joys of creation, and will continue to engage in proactive, unified company operations in the future.

### (2) Target Management Benchmarks

We are firm in our belief that customer and shareholder trust can be created through stable corporate growth. We have set as our basic targets an annual net sales growth rate of 10% or more, and an operating profit to net sales of 10% or more, focusing on our core group-wide business activities from the perspective of global management.

The group formulated a five-year medium-term business plan from FY 2016 to FY 2020. The period until the final fiscal year (fiscal year ending December 31, 2020) has been positioned as a transitional period toward a new growth stage, and emphasis is placed on changing the business portfolio and enhancing operational effectiveness. The performance goals for FY 2020, the final fiscal year, include consolidated net sales of 46,000 million yen, consolidated operating profit of 4,500 million yen, and ROE of 12 %.

### (3) Medium to Long Term Business Strategy and Issues to be Addressed

Our group has continued to grow by creating high value-added markets globally based on color & 3D digital control technology. In the medium-term business plan from FY 2016 to FY 2020, we are working on creating new markets in response to the maturing of mainstay markets. In addition, we will reform our solutions while responding to structural changes of the digital network society aggressively, and change the business portfolio for sustainable growth.

#### 1) Business Fields to be Focused on

We are aiming to grow our business through a consistent implementation of selection and concentration of focus fields in which we can bring out our strengths to develop niche and highly value-added business. Specifically, we further clarified allocation of management resources by dividing our business into three areas: 1. “DP (Digital Printing) Business,” which focuses on the four markets of Signage (sign and display printing), Retail, Multi-Use Printing, and Textiles; 2. “COTO Business,” which has been developed from retail to provide solutions to retail businesses and service businesses that capture needs for personalized goods; and 3. “DGSHAPE Business,” which targets the 3D digital fabrication and dental markets, whereby we work to expand growth areas and create new markets.

## 2) Response to Changes of Markets and Customer Needs

Considering value creation and market creation as the core of growth, flexibility to market changes including diversification of customer needs is critical. Based on our group-wide corporate structure, which enables speedy responses to changes, we will aggressively invest in our core technology innovation, and realize sustainable growth by looking to ICT (Information Communication Technology) and transforming to a solutions provider that offers everything that generates customer values as “services.”

## 3) Response to Maturing of Mainstay Markets

The mainstay sign markets are maturing in line with the widespread use of inkjet printers. Through introduction of products with superiority and differentiation, creation of business opportunities for customers via development of various other usages and the strengthening of solution proposals, we will focus on maximizing customer value, while also leveraging our global sales network to create strong customer bases with the intent of creating profitable and continuous business models.

## 4) Strengthening organization management system

For niche and highly value-added market creation, we are required to capture the changing needs of society or individuals rather quickly and promote flexible business activities under the direction of strong leaders with entrepreneurship. We have adopted a divisional organization system for organizational management of each focus field since September 2018, to realize swift market creation with speedy decision-making that accurately grasps market changes.

## 5) Strengthening R&D and Production Structure

In terms of the structure behind R&D and production, our company thinking is based in the “digital factory” concept, which ensures speedy and effective development and production by sharing 3D data company-wide as well as suppliers. Multiple products are realized by concurrent engineering, and assembled with cell production system which is optimized for low-volume, high-variety production work.

Furthermore, we are currently aggressively conducting research and development investment to strengthen our technological base in order to respond to rapid changes in the market environment and the diversification of needs. Through unique technological proposals taking advantage of our core technologies, we will advance the creation of additional customer value and high value-added markets.

In production and procurement, we aim to improve cost competitiveness and production lead times through our two bases at the domestic plant and the Thai plant, at the same time strengthen our capabilities to respond to changes in demand for the realization of further optimization.

## 6) Improving Business Sustainability

As part of our natural disaster preparedness, we are striving to improve the continuity of our business activities through means such as multi-faceted review of BCP (business continuity planning) that includes supply chains, and decentralization of risk. We are implementing the latter by extending our production system across plants in Japan and Thailand, and by promoting overseas parts procurement.

## 7) Environmental Protection

We are taking a number of initiatives to ensure the protection of the environment. This includes considering environmental impact during product development, preparing our facilities to prevent contamination, efforts to reduce energy consumption, and company-wide education on efficient usage and recycling of materials. Going forward, we will continue to make sustainable environmental efforts that can contribute to development of a sustainable society

## 8) Enhancing Corporate Governance and Strengthening Internal Control

As a listed company, corporate governance is our responsibility to society, and to realize this, we must strengthen the internal control of our company. We have set “Basic Policies on the Internal Control System” as sought by the Companies Act and maintain a risk management structure. Furthermore, regarding internal control for financial reports as instituted by the Financial Instruments and Exchange Act, we are planning structural and organizational measures to ensure the appropriateness of such reports in accordance with the above basic policy.

Furthermore, “Japan’s Corporate Governance Code” has been applied to companies listed on the Tokyo Stock Exchange from June 2015. While understanding the purpose and spirit of this code fully and enhancing corporate governance, we will strive for sustainable growth and the increase of corporate value over the medium to long term through active dialogue with shareholders and investors, etc., by establishing the “Policy for Constructive Dialogue with Shareholders”.



### 3. Basic Policy on Selection of Accounting Standards

The Group applies Japanese Accounting Standards.

Concerning the future adoption of International Financial Reporting Standards (IFRS), the Group will consider its application while taking into consideration factors such as global adoption and domestic trends.

#### 4. Consolidated Financial Statements

##### (1) Consolidated Balance Sheets

(Thousands of Yen)

	As of December 31, 2017	As of December 31, 2018
<b>Assets</b>		
Current assets		
Cash and deposits	9,766,525	11,170,003
Notes and accounts receivable - trade	4,621,555	4,998,945
Merchandise and finished goods	6,009,230	5,766,572
Work in process	28,229	64,025
Raw materials and supplies	2,392,219	2,211,111
Deferred tax assets	1,099,656	997,819
Other	2,520,292	2,065,172
Allowance for doubtful accounts	(66,155)	(87,942)
Total current assets	26,371,553	27,185,707
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,054,128	7,037,881
Accumulated depreciation	(4,333,086)	(4,491,880)
Buildings and structures, net	2,721,041	2,546,000
Machinery, equipment and vehicles	1,039,846	947,285
Accumulated depreciation	(717,813)	(696,498)
Machinery, equipment and vehicles, net	322,033	250,786
Tools, furniture and fixtures	3,624,684	3,789,006
Accumulated depreciation	(2,905,322)	(3,043,209)
Tools, furniture and fixtures, net	719,362	745,796
Land	3,130,077	3,124,848
Construction in progress	48,019	27,195
Total property, plant and equipment	6,940,534	6,694,627
Intangible assets		
Goodwill	372,297	274,443
Software	1,237,933	973,252
Telephone subscription right	8,598	8,258
Total intangible assets	1,618,829	1,255,954
Investments and other assets		
Investment securities	31,403	19,384
Deferred tax assets	672,679	670,870
Other	953,524	884,191
Allowance for doubtful accounts	(18,018)	—
Total investments and other assets	1,639,589	1,574,445
Total non-current assets	10,198,953	9,525,027
Total assets	36,570,506	36,710,735

(Thousands of Yen)

	As of December 31, 2017	As of December 31, 2018
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	1,908,452	1,994,581
Short-term loans payable	138,400	—
Current portion of long-term loans payable	1,440,000	360,000
Income taxes payable	130,486	224,968
Provision for bonuses	664,512	723,324
Provision for directors' bonuses	—	60,000
Provision for product warranties	538,417	458,315
Other	3,524,561	3,316,935
Total current liabilities	8,344,831	7,138,125
Non-current liabilities		
Long-term loans payable	3,240,000	2,880,000
Provision for employee stock ownership plan trust	102,876	113,374
Provision for management board incentive plan trust	253,692	191,756
Provision for loss on dissolution of employees' pension fund	51,732	4,671
Net defined benefit liability	642,269	858,387
Long-term accounts payable - other	42,213	39,880
Other	1,371,196	1,302,238
Total non-current liabilities	5,703,980	5,390,308
<b>Total liabilities</b>	<b>14,048,811</b>	<b>12,528,433</b>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	3,668,700	3,668,700
Capital surplus	3,700,608	3,700,608
Retained earnings	16,030,080	18,152,407
Treasury shares	(579,561)	(442,217)
Total shareholders' equity	22,819,827	25,079,498
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,786	(1,246)
Foreign currency translation adjustment	(154,073)	(612,127)
Remeasurements of defined benefit plans	(151,913)	(283,903)
Total accumulated other comprehensive income	(298,200)	(897,277)
Non-controlling interests	68	80
<b>Total net assets</b>	<b>22,521,695</b>	<b>24,182,301</b>
<b>Total liabilities and net assets</b>	<b>36,570,506</b>	<b>36,710,735</b>

(2) Consolidated Statements of Operations and Comprehensive Income  
Consolidated Statements of Operations

(Thousands of Yen)

	For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)	For the fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)
Net sales	43,573,215	42,774,908
Cost of sales	24,226,340	23,680,741
Gross profit	19,346,874	19,094,166
Selling, general and administrative expenses		
Transportation and warehousing expenses	958,003	1,008,875
Advertising and promotion expenses	1,125,002	1,024,912
Provision of allowance for doubtful accounts	15,198	25,675
Provision for product warranties	79,930	—
Salaries and bonuses	7,656,276	7,256,584
Provision for bonuses	392,166	445,303
Provision for directors' bonuses	—	60,000
Provision for employee stock ownership plan trust	10,614	13,996
Provision for management board incentive plan trust	69,278	58,937
Retirement benefit expenses	372,898	292,475
Traveling and transportation expenses	647,268	593,354
Depreciation	758,824	681,538
Commission fee	1,204,694	1,297,025
Other	2,203,432	2,085,471
Total selling, general and administrative expenses	15,493,589	14,844,152
Operating profit	3,853,284	4,250,014
Non-operating income		
Interest income	15,564	13,879
Gain on valuation of investments in money held in trust	62,575	—
Commission fee	26,402	—
Reversal of reserve for loss on dissolution of employees' pension fund	—	44,923
Other	58,988	71,229
Total non-operating income	163,531	130,032
Non-operating expenses		
Interest expenses	19,816	15,911
Sales discounts	168,370	153,705
Foreign exchange losses	9,262	201,009
Other	14,847	32,490
Total non-operating expenses	212,297	403,117
Ordinary profit	3,804,518	3,976,929

(Thousands of Yen)

	For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)	For the fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)
Extraordinary income		
Gain on sales of non-current assets	11,238	12,028
Total extraordinary income	11,238	12,028
Extraordinary losses		
Loss on sales and retirement of non-current assets	23,005	127,217
Settlement package	1,381,457	—
Provision for dissolution of benefit obligation relating to employees' pension fund	51,732	—
Total extraordinary losses	1,456,196	127,217
Profit before income taxes	2,359,560	3,861,740
Income taxes - current	810,093	859,272
Refund of income taxes	(352,466)	—
Income taxes - deferred	(16,112)	120,760
Total income taxes	441,515	980,033
Profit	1,918,045	2,881,707
Profit attributable to non-controlling interests	13	13
Profit attributable to owners of parent	1,918,031	2,881,694

## (Consolidated Statements of Comprehensive Income)

(Thousands of Yen)

	For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)	For the fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)
Profit	1,918,045	2,881,707
Other comprehensive income		
Valuation difference on available-for-sale securities	4,730	(9,032)
Foreign currency translation adjustment	312,167	(458,055)
Remeasurements of defined benefit plans, net of tax	321,530	(131,989)
Total other comprehensive income	638,428	(599,077)
Comprehensive income	2,556,473	2,282,629
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,556,453	2,282,617
Comprehensive income attributable to non-controlling interests	20	11

## (3) Consolidated Statements of Changes in Net Assets

For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

(Thousands of Yen)

	Shareholder's equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,668,700	3,700,608	14,808,134	(623,301)	21,554,142
Changes of items during period					
Dividends of surplus			(696,086)		(696,086)
Profit attributable to owners of parent			1,918,031		1,918,031
Treasury stock transfer of stock ownership plan trust				43,740	43,740
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	—	1,221,945	43,740	1,265,685
Balance at end of current period	3,668,700	3,700,608	16,030,080	(579,561)	22,819,827

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	3,056	(466,234)	(473,444)	(936,622)	48	20,617,567
Changes of items during period						
Dividends of surplus				—		(696,086)
Profit attributable to owners of parent				—		1,918,031
Treasury stock transfer of stock ownership plan trust				—		43,740
Net changes of items other than shareholders' equity	4,730	312,160	321,530	638,421	20	638,442
Total changes of items during period	4,730	312,160	321,530	638,421	20	1,904,127
Balance at end of current period	7,786	(154,073)	(151,913)	(298,200)	68	22,521,695

For the fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

(Thousands of Yen)

	Shareholder's equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,668,700	3,700,608	16,030,080	(579,561)	22,819,827
Changes of items during period					
Dividends of surplus			(759,366)		(759,366)
Profit attributable to owners of parent			2,881,694		2,881,694
Treasury stock transfer of stock ownership plan trust				137,343	137,343
Net changes of items other than shareholders' equity					—
Total changes of items during period	—	—	2,122,327	137,343	2,259,670
Balance at end of current period	3,668,700	3,700,608	18,152,407	(442,217)	25,079,498

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	7,786	(154,073)	(151,913)	(298,200)	68	22,521,695
Changes of items during period						
Dividends of surplus				—		(759,366)
Profit attributable to owners of parent				—		2,881,694
Treasury stock transfer of stock ownership plan trust				—		137,343
Net changes of items other than shareholders' equity	(9,032)	(458,053)	(131,989)	(599,076)	11	(599,064)
Total changes of items during period	(9,032)	(458,053)	(131,989)	(599,076)	11	1,660,606
Balance at end of current period	(1,246)	(612,127)	(283,903)	(897,277)	80	24,182,301



## (4) Consolidated Statements of Cash Flows

(Thousands of Yen)

	For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)	For the fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)
<b>Cash flows from operating activities</b>		
Profit before income taxes	2,359,560	3,861,740
Depreciation	1,150,891	1,126,676
Amortization of goodwill	78,239	80,555
Increase (decrease) in allowance for doubtful accounts	4,193	7,983
Increase (decrease) in provision for bonuses	(53,219)	62,556
Increase (decrease) in provision for directors' bonuses	(80,000)	60,000
Increase (decrease) in provision for product warranties	(15,728)	(65,464)
Increase (decrease) in provision for employee stock ownership plan trust	49,236	21,870
Increase (decrease) in provision for management board incentive plan trust	36,683	64,035
Increase (decrease) reserve for loss on dissolution of employees pension fund	51,732	(47,061)
Increase (decrease) in net defined benefit liability	142,351	29,023
Interest and dividend income	(16,046)	(14,457)
Interest expenses	19,816	15,911
Settlement package	1,381,457	—
Loss (gain) on sales and retirement of intangible assets	4,017	85,748
Loss (gain) on sales of property, plant and equipment	7,750	29,440
Decrease (increase) in notes and accounts receivable - trade	515,414	(566,556)
Decrease (increase) in inventories	201,672	42,262
Decrease (increase) in other current assets	(925,194)	117,072
Decrease (increase) in other non-current assets	24,984	40,234
Increase (decrease) in notes and accounts payable - trade	(518,296)	118,997
Increase (decrease) in other current liabilities	187,448	(217,849)
Increase (decrease) in other non-current liabilities	(93,067)	(49,438)
Other, net	41,771	51,359
Subtotal	4,555,669	4,854,640
Interest and dividend income received	19,423	17,535
Interest expenses paid	(19,834)	(15,868)
Settlement package paid	(1,341,705)	—
Income taxes paid	(766,636)	(508,615)
Net cash provided by (used in) operating activities	2,446,916	4,347,692
<b>Cash flows from investing activities</b>		
Payments into time deposits	(17,200)	(264)
Proceeds from withdrawal of time deposits	68,580	—
Purchase of property, plant and equipment	(547,769)	(508,120)
Proceeds from sales of property, plant and equipment	25,409	23,835
Purchase of intangible assets	(356,312)	(270,763)
Purchase of investment securities	(841)	(914)
Other, net	261	298
Net cash provided by (used in) investing activities	(827,872)	(755,928)

	(Thousands of Yen)	
	For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)	For the fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	132,400	(136,800)
Repayments of long-term loans payable	(1,440,000)	(1,440,000)
Cash dividends paid	(698,043)	(759,776)
Other, net	90	(2,429)
Net cash provided by (used in) financing activities	(2,005,553)	(2,339,005)
Effect of exchange rate change on cash and cash equivalents	189,260	127,396
Net increase (decrease) in cash and cash equivalents	(197,248)	1,380,154
Cash and cash equivalents at beginning of period	9,936,096	9,748,848
Increase in cash and cash equivalents from newly consolidated subsidiary	10,000	40,668
Cash and cash equivalents at end of period	9,748,848	11,169,670

7. Other

Changes to Officers

(Scheduled on March 20, 2019)

(1) Change to Representative Director

Not Applicable.

(2) Changes to Other Officers

1) New candidate for Director

Toshiharu Uwai, Director (Currently Executive Officer of the Company)

2) Director scheduled for retirement

David Goward, Vice President and Director